



Jerry E. Abramson
Mayor

26 Member
Metro Council

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Audit Report

Office of Internal Audit



Metro Police Department

Narcotics Unit Asset Forfeiture Management

July 2003

Metro Police Department

Narcotics Asset
Forfeitures

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LOUISVILLE, KENTUCKY
OFFICE OF INTERNAL AUDIT

JERRY E. ABRAMSON
MAYOR

RON WESTON
PRESIDENT, METRO COUNCIL

Transmittal Letter

July 24, 2003

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall

Re: Audit of the Metro Police Narcotics Unit Asset Forfeiture Management

Scope and Opinion

We have examined the operating records and procedures of the Metro Police Narcotics Unit asset forfeiture management. This included the processes (e.g., seizure, forfeiture, expenditures and monitoring) used to administer narcotic forfeiture activity. The primary focus of the audit was the operational and fiscal administration of the activity.

As a part of our examination, we performed an evaluation of the internal control structure. Our examination was conducted in accordance with Generally Accepted Government Auditing Standards (1994 Revision), issued by the Comptroller General of the United States; with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors; and Generally Accepted Auditing Standards to the extent we considered necessary to evaluate the system.

The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

The operating procedures associated with Metro Police Narcotics Unit asset forfeiture management were reviewed through interviews with key personnel. The operational and fiscal administration of activity was reviewed. The following specific topic was included:

- Asset Forfeiture Management

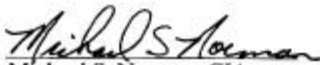
The scope and methodology of the areas reviewed will be addressed in the Observations and Recommendations section of this report. Our examination would not reveal all weaknesses because it was based on selective review of data.

The internal control rating for each area reviewed is on page 4. These ratings quantify our opinion regarding the internal controls used in managing the activity and identify areas requiring corrective action.

It is our opinion that the overall internal control structure for the management of asset forfeitures is weak. There were some specific problems that indicate the internal control structure could be more effective. Examples of the problems include the following.

- The Metro Narcotics Unit maintains some forfeited funds in an ancillary bank account. This increases risks associated with separation of duties and monitoring responsibilities.
- Files do not contain sufficient documentation to record the receipt of forfeited funds. This weakens the reliability of files maintained to record activity.
- Functional operating policies and procedures are not provided for asset forfeitures. This may lead to inconsistencies in administration and management of activities.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the Metro Narcotics Unit asset forfeiture management.



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Metro Police Chief

Internal Control Rating



Legend

<u>Criteria</u>	<u>Satisfactory</u>	<u>Weak</u>	<u>Inadequate</u>
<u>Issues</u>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<u>Controls</u>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<u>Policy Compliance</u>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<u>Image</u>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<u>Corrective Action</u>	May be necessary.	Prompt.	Immediate.

Introduction

The Metro Narcotics Unit is part of the Metro Police Department Investigation Division. This Unit develops, collects and analyzes information that results in the identification, investigation and arrest of illegal drug dealers. The Unit also confiscates illegal drugs in an effort to reduce long-range damage to the community from drug traffic.

The efforts of the Metro Narcotics Unit may result in the seizure of assets used to commit criminal activity. Ultimately, these items (e.g., cash, vehicles, etc.) are subject to State and Federal forfeiture laws. The Metro Police Department receives forfeited funds and is required to administer them in accordance with applicable regulations. Currently, Federally forfeited funds received are deposited through the Metro Treasury Division and recorded on the financial system. A portion of State forfeited funds are maintained in an ancillary bank account and used for certain investigative purposes.

For the period July 2002 through February 2003, approximately \$175,000 had been forfeited to the Metro Narcotics Unit.

This audit was requested by the Commander of the Metro Narcotics/Vice Unit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit issued a prior review of Metro Narcotics Unit activity in August 1995, which included asset forfeiture management. Unless otherwise noted, all prior weaknesses have been satisfactorily addressed.

III. Statement of Auditing Standards

Our audit was performed in accordance with Generally Accepted Government Auditing Standards (1994 edition) issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing (2001 edition) issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.

V. *Statement of Irregularities, Illegal Acts, and Other Noncompliance*

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. *Views of Responsible Officials*

An exit conference was held at the Metro Narcotics Unit Administrative Offices on June 18, 2003. Attending were Captain John Reed and Lieutenant William Wiley representing the Metro Police Department; Mark Doran and Shannon Curran representing Internal Audit. Final audit results were discussed.

The views of the Metro Police Department officials are included as responses in the Observations and Recommendations section of the report.

Observations and Recommendations

Asset Forfeiture Management

Scope

Key Metro Narcotics Unit personnel were interviewed in order to review the operational and fiscal administration of the Metro Narcotics Unit asset forfeiture activity. This included the processing of forfeitures, expenditure activity, records management, and reconciliation. This was intended to focus on the accuracy and appropriateness of Metro Narcotics Unit asset forfeiture practices.

Seven State and three Federal forfeiture cases were judgmentally selected from the period of July 1, 2002 to February 28, 2003. The forfeiture file, financial records, and bank statements were reviewed to determine the appropriateness and accuracy of the activity. The following concerns were noted.

Observations

There were some weaknesses noted with the Metro Narcotics Unit asset forfeiture management. As a result, the internal control structure is weakened and its effectiveness impaired. Examples of the weaknesses include the following.

- The Metro Narcotics Unit maintains an ancillary bank account for State forfeitures. These funds are not recorded on the Louisville Metro financial systems. While this treatment of funds may be the most efficient given the nature of its uses, several issues are related to this method of financial management.
 - The current administration of these funds leads to separation of duties weaknesses. One person is solely responsible for the management of the bank account activity. This includes the preparation of deposits, handling of receipts, check writing, and bank reconciliation.
 - Checks written from the forfeiture bank account require two signatures. Currently, two of the five authorized individuals are no longer with the Metro Narcotics Unit.

These types of concerns were noted during the previous review.

- There were instances in which sufficient documentation was not available to adequately document the amount and receipt of forfeited funds. None of the receipts for cash for the Federal transactions were signed to document the acceptance of funds and the date received.
- While standard operating procedures do exist, the Metro Narcotics Unit does not maintain detailed policies and procedures for the asset forfeiture process. As a result, employees do not have readily available guides to assist in processing, recording and monitoring the activity. This could lead to inconsistencies in administering funds, insufficient monitoring and noncompliance with requirements.

- The Metro Narcotics Unit presents Federal forfeitures, along with excess State funds, for deposit through the (former County) Police Business Office. These funds may be held in the Business Office for up to a week before being submitted to the Treasury Department for deposit with the bank.

Recommendations

Appropriate personnel should take the necessary corrective actions to address the concerns noted. Specific recommendations include the following:

- ✓ Management should assess the risk of maintaining a separate bank account for forfeited funds.
- ✓ Consideration should be given to allowing the Metro Treasury Division to serve as fiscal agent for all funds. Inclusion of all forfeiture activity on the Metro Government's system will more accurately reflect activity on the financial statements. Additionally, this would resolve the financial risk of maintaining a separate bank account.
- ✓ While two signatures are required, the authority to sign checks should not include the person responsible for the daily management of the bank account. This will allow approval of persons independent from the bank account activity.
- ✓ The names of individuals authorized to sign checks should be updated as needed (e.g., staff changes, etc.).
- ✓ A responsible individual who does not have processing responsibility for forfeitures should monitor the bank account activity. While monthly bank account activity reports are sent to the Commander of the Narcotics Unit, there is still risk involved by not having this separation of duties. The Commander should continue to receive monthly reports. The Commander should also receive the monthly bank statements.
- ✓ The appropriate personnel should take care to ensure all documentation related to asset forfeitures is present in the file. This will ensure accuracy and timeliness of payments and deposits.
- ✓ Periodic spot-checks/reviews should be conducted. Individuals independent of the activity, such as applicable supervisors or Internal Audit staff, should review case files and perform cash counts to ensure completeness of records and appropriateness of activity.
- ✓ A documented forfeiture processing guide should be developed and accessible to staff. This should correspond with and supplement applicable guidelines (e.g., Federal regulations, State statute, local ordinance, general policies and procedures, etc.). This documentation should include sufficient detail for each duty performed, along with copies of forms used. In addition, training of key personnel will help ensure consistent adherence to the requirements. These procedures should remain available for staff members to reference for specific tasks processing and monitoring requirements. These would be extremely beneficial as a training guide for new staff members assigned to manage and oversee this activity.

- ✓ Deposits should be taken to the bank as soon as possible to ensure assets are safeguarded and to take advantage of accrued interest. Appropriate personnel should ensure all financial policies and procedures are adhered to (e.g. former City policy stated deposits must be made at least weekly or when they exceed \$1,000, whichever occurs first).

Metro Police Department Response

The Louisville Metro Police Department Narcotics/Vice Unit is currently in the process of transferring control of State forfeiture funds to the Metro Treasury Division. By doing so, all forfeiture activity will be placed on the Metro Government's system and will more accurately reflect activity on the financial statements. Additionally, this will resolve the financial risk of maintaining a separate bank account. Police commanders and Police Finance staff have met and all are in agreement to transfer control of the funds.

Any documentation that was missing was discussed at the exit conference. The documentation in question was missing from files that were examined from a previous period. The process to track the amount and receipt of forfeited funds was revised to include these documents. The majority of files examined during this particular audit had the necessary documentation as required by current policy.

We are currently in the process of developing a Policy and Procedural Manual for the Narcotics/Vice Unit. In addition, we are also developing a policy manual specifically for the asset forfeiture process. This documented forfeiture processing guide, once developed, will be accessible to staff. It will correspond with and supplement applicable guidelines (e.g., Federal regulations, State statute, local ordinance, general policies and procedures, etc.). This documentation will include sufficient detail for each duty performed, along with copies of forms used. In addition, it is our intent to provide additional training to key personnel that will help ensure consistent adherence to the requirements. It is our intent to have this manual complete within the next ninety (90) days.



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